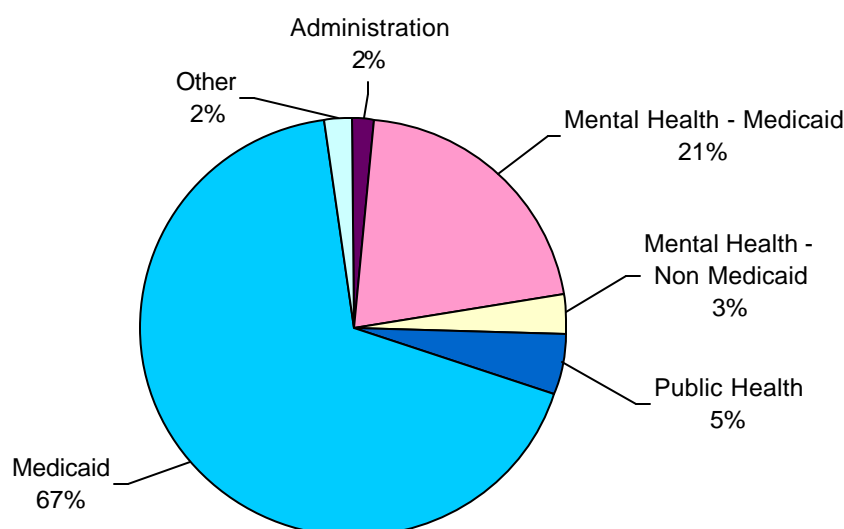


Department of Community Health

The Department of Community Health (DCH) is responsible for health policy and management of the state's publicly funded health care systems. These programs include Medicaid health coverage for persons with limited incomes; mental health services for people who have a mental illness or developmental disability; services for individuals who need care for substance abuse; and services provided through local public health operations. The department also provides services to promote the independence and preserve the dignity of Michigan's elderly through the Office of Services to the Aging.

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$9.8 billion, of which \$2.5 billion is general fund.

Medicaid is Two-Thirds of the Community Health Budget



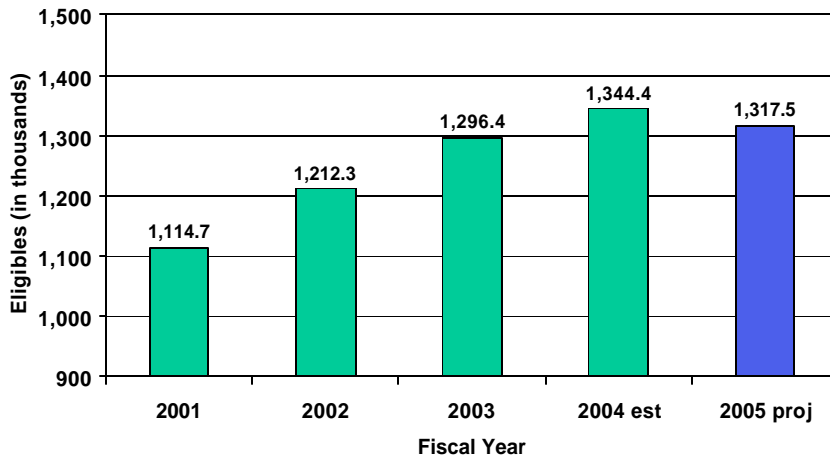
Department Priorities

- Preserve and maintain health care coverage and essential health care services for children and our most vulnerable elderly and disabled citizens.
- Through the work of the Mental Health Commission, establish a strategic plan to improve care for individuals with mental illness.
- Strengthen the public health infrastructure to respond to potential bioterrorism or other public health emergencies.
- Extend the length of time that low-income, elderly citizens are physically able to remain in their own homes.
- Promote increased physical activity, improved nutrition and tobacco cessation to improve the health of Michigan's citizens.

Community Health Budget Highlights

- ◆ Even with major fiscal challenges, Governor Granholm's fiscal year 2005 budget protects the most vulnerable populations by maintaining the Medicaid program.

Annual Average Number of Medicaid Eligibles



More than \$400 million in state funds have been added to the fiscal year 2005 Medicaid budget. This includes \$168 million to replace the loss of federal fiscal relief, \$150 million to replace other lost federal resources, and \$86 million for changes in the Medicaid caseload and the increased utilization of services. The primary funding source for these increases is cigarette tax revenue. The Executive Recommendation includes a 75 cent per pack increase to the cigarette tax that will be used to provide a stable funding source for Medicaid.

The total recommended fiscal year 2005 funding for the medical and long term care portions of the Medicaid program is \$6.5 billion, a 4 percent increase over fiscal year 2004. This funding allows the Michigan Medicaid program to provide quality health care services for over 1.3 million people each month. The fiscal year 2005 Executive Budget assumes that the number of Medicaid recipients will continue to grow steadily through the second quarter of fiscal year 2004, and then will level off as the economy recovers in fiscal year 2005.

- ◆ Health maintenance organizations (HMOs) are critical to the delivery of quality health care for Michigan's citizens, including over 900,000 Medicaid recipients. The federal government requires actuarially sound HMO rates and Governor Granholm's budget builds in \$124 million gross, \$53.7 million general fund, for this requirement. This cost increase will be financed through program reductions elsewhere in the Medicaid budget. These reductions, designed to minimize the negative impact on recipients, include savings in the Elder Prescription Insurance Coverage (EPIC) program that result from the newly-enacted Medicare discount drug card; returning Children's Special Health Care service delivery to fee-for-service; adjusting the quality assurance assessment program for HMOs; increasing third-party health insurance for children and increasing reimbursements from responsible third-party payers. In addition, the Governor proposes to increase vital records fees; eliminate payment for nursing home hospital leave days; and align emergency room physician reimbursement rates with other physician services. Lastly, the Governor proposes to create a new quality assurance assessment program for mental health residential providers, thereby saving state costs and providing an increase to these providers.

- ◆ The department recently received federal approval for the Adult Benefits Waiver, and is moving ahead with the submission of part two of this waiver. Adult Benefits Waiver II establishes a new inpatient hospital rate to support critical health services for this needy population while reducing Medicaid costs. The waiver is expected to save \$47 million general fund when fully implemented.
- ◆ The Governor's budget includes several pharmacy policy changes necessary to keep Michigan's Medicaid budget balanced. They include aligning Michigan's dispensing fee for prescription drugs with the amount paid by commercial insurance carriers, decreasing the amount paid for brand name and generic drugs, and implementing a mail order pharmacy program for maintenance drugs. Combined, these changes will save \$36.0 million gross, \$16 million general fund. The budget recommendation also includes language that permits expenditures related to these items to remain at fiscal year 2004 levels if a pharmaceutical quality assurance assessment program is enacted prior to October 1, 2004.

Mental Health

- ◆ The fiscal year 2005 budget continues a commitment of over \$2.3 billion for mental health services. Only 12 percent of mental health funding is now spent in state institutions, as the vast majority of services are provided in the community. Increases in mental health rates, to be phased-in over two years, will insure that payments are actuarially sound and will increase costs by \$29.3 million gross, \$12.7 million general fund.

"Few things affect the quality of our life and the quality of our work more than our good health."

Public Health

- ◆ Funding for public health programs totals \$464.7 million for fiscal year 2005. This funding recognizes the critical role that public health programs play in improving the overall health and well-being of Michigan residents. Included in this recommendation is a \$2 million federal grant increase for the federal bioterrorism initiative to improve disease surveillance and epidemiology capacity.

Governor Granholm, State of the State Message, January 27, 2004

In addition, \$30 million of new tobacco tax revenue will be dedicated to public health programs. The increased tobacco tax will be a deterrent to new young smokers and will provide a revenue stream to support smoking-related health programs.

Other Issues

- ◆ Reducing the cost of expensive prescription drugs for senior citizens and other low-income residents is an important component of

"We all benefit when we improve access to health care."

**Governor Granholm, State of the State Message,
January 27, 2004**

improving access to health care. At no cost to the state, the department will pursue a Michigan Prescription Discount Card that will pool purchasing power to allow many senior citizens and uninsured working people to reduce prescription costs by as much as 20 percent.

- ◆ Improving access to health care for families will be accomplished through the expanded Third Share Partnership, similar to programs now operating in Muskegon and Ingham counties. Under the program, the costs of limited health coverage are shared equally with employees, employers, and the state, with the state's share paid via a tax credit. This program helps small businesses offer low cost health insurance to their employees.
- ◆ Funds have been aligned throughout the department to reflect the transfer of health licensing and inspection programs and funding from the former Department of Consumer and Industry Services to the Department of Community Health, increasing the department's budget by \$39.7 million gross, \$4.8 million general fund.
- ◆ The Executive Recommendation includes an increase of \$54.9 million to fund employee-related economic increases. Due to current budgetary pressures, however, the state is unable to fully fund these increases in employee salaries, insurance, and pension costs. Therefore, the budget includes a savings adjustment of \$13.0 million to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation
Department of Community Health
(\$ in Thousands)

	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$2,386,850.6	\$2,657,800.5	\$2,476,078.8
All Funds	\$9,833,234.1	\$9,751,028.7	\$9,802,931.2
	% Change - GF/GP	11.4%	-6.8%
	% Change - All Funds	-0.8%	0.5%

Program	% of Total	GF/GP	All Funds
Medicaid		\$1,179,831.0	\$6,621,099.5
Medicaid Fee for Services			
Medicaid Managed Care Services			
Medicaid Adult Benefits Waiver			
Children's Special Health Care Services			
Mental Health - Medicaid		\$806,698.9	\$2,028,324.6
Mental Health - Non-Medicaid		\$313,352.4	\$313,352.4
Public Health		\$62,015.8	\$464,658.0
Administration		\$62,900.7	\$158,708.1
Other		\$51,280.0	\$216,788.6
Office of Drug Control Policy			
Crime Victim Services			
Office of Services to the Aging			
Information Technology Services			
Health Regulatory Systems			
* Adjusted for program transfers.			
Total FY 2005 Recommendation		\$2,476,078.8	\$9,802,931.2

